
SECOND SUPPLEMENTAL TRUST INDENTURE

among

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

TREASURER OF THE STATE OF CALIFORNIA, as TRUSTEE

and

U.S. BANK, N.A., as CO-TRUSTEE

authorizing

POWER SUPPLY REVENUE BONDS
SERIES 2002A

and

AMENDING TRUST INDENTURE

Dated as of November 1, 2002

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SECOND SUPPLEMENTAL TRUST INDENTURE

authorizing

POWER SUPPLY REVENUE BONDS, SERIES 2002A

and

AMENDING TRUST INDENTURE

This SECOND SUPPLEMENTAL TRUST INDENTURE (the “Second Supplemental Indenture”) is dated as of November 1, 2002, among the STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES (the “Department”), existing pursuant to Article 1 (commencing with Section 120) of Chapter 2 of Division 1 of the California Water Code, the TREASURER OF THE STATE OF CALIFORNIA, as Trustee (the “Trustee”) and U.S. BANK, N.A., as Co-Trustee (the “Co-Trustee”).

In consideration of the mutual agreements contained in this Second supplemental Indenture and other good and valuable consideration, the receipt of which is hereby acknowledged, the Department, the Trustee and the Co-Trustee agree as set forth herein.

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

1.01. **Supplemental Indenture; Department.** This Second Supplemental Indenture supplements the Trust Indenture dated as of October 1, 2002, among the Department, the Trustee and the Co-Trustee (as the same may be amended, the “Master Indenture” and, collectively with this Second Supplemental Indenture, the “Indenture”), and is entered into pursuant to and in accordance with Article VIII of the Master Indenture and the Act.

1.02. **Definitions.** (a) Except as set forth in subsection (b) of this Section, all terms which are defined in Section 101 of the Master Indenture shall have the same meanings for purposes of this Second Supplemental Indenture.

(b) In this Second Supplemental Indenture:

“**Ambac**” means Ambac Assurance Corporation, a stock insurance corporation, or any successor thereto or assignee thereof.

“**Ambac Insured Bonds**” means the Series 2002A Bonds indicated in Section 2.04(a) hereof.

“**Beneficial Owner**” means, for any Series 2002A Bond which is held by a nominee, the beneficial owner of such Bond.

“**Code**” means the Internal Revenue Code of 1986 (Title 26 of the United States Code) and any applicable regulations thereunder, as amended.

“**DTC**” means The Depository Trust Company, New York, New York, or its successors.

“**FSA**” means Financial Security Assurance Inc., a stock insurance corporation, or any successor thereto or assignee thereof.

“**FSA Insured Bonds**” means the Series 2002A Bonds indicated in Section 2.04(a) hereof.

“**Insurers**” means Ambac, FSA, MBIA and XL Capital, collectively.

“**MBIA**” means MBIA Insurance Corporation, a stock insurance corporation, or any successor thereto or assignee thereof.

“**MBIA Insured Bonds**” means the Series 2002A Bonds indicated in Section 2.04(a) hereof.

“**Policy**” or “**Policies**” means the insurance policy or policies issued by the Insurers, as specified in Section 3.01 hereof, guaranteeing the scheduled payment when due of principal of and interest on the Ambac Insured Bonds, the FSA Insured Bonds, the MBIA Insured Bonds and the XL Capital Insured Bonds.

“**Record Date**” has the meaning given to such term in Section 2.04(e) hereof.

“**Securities Depository**” means DTC as the Securities Depository appointed pursuant to Section 2.04(g) hereof, or any substitute Securities Depository, or any successor to DTC or any substitute Securities Depository.

“**Series 2002A Bonds**” means the Power Supply Revenue Bonds, Series 2002A, authorized by Section 2.01 hereof.

“**XL Capital**” means XL Capital Assurance Inc., a stock insurance corporation, or any successor thereto or assignee thereof.

“**XL Capital Insured Bonds**” means the Series 2002A Bonds indicated in Section 2.04(a) hereof.

ARTICLE II

AUTHORIZATION AND DETAILS OF SERIES 2002A BONDS

2.01. **Principal Amount, Designation and Series.** Pursuant to the provisions of the Master Indenture, one Series of Bonds entitled to the benefit, protection and security of such provisions is hereby authorized in the aggregate principal amount of

\$6,313,500,000 and with the following designation: Power Supply Revenue Bonds, Series 2002A.

2.02. **Purposes.** The purposes for which the Series 2002A Bonds are issued are, together with other moneys available therefor, to pay Costs of the Department as provided by Section 2.03 hereof.

2.03. **Application of Proceeds of Series 2002A Bonds.** Proceeds of the Series 2002A Bonds, including the accrued interest paid as part of the purchase price for the Series 2002A Bonds shall be applied as follows:

(i) The amount of \$5,926,651,141.08 shall be deposited in the General Fund of the State to repay the General Fund of the State for advances made to the Department from amounts appropriated to the Electric Power Fund and moneys expended by the Department from the General Fund pursuant to the 2001 Emergency Measures.

(ii) The amount of \$27,599,931.78 shall be deposited in the Bond Charge Collection Account.

(iii) The amount of \$136,582,844.33, including such accrued interest, shall be deposited in the Bond Charge Payment Account.

(iv) The amount of \$451,943,758.32, being the amount necessary to cause the amount on deposit in the Debt Service Reserve Account to at least equal the Debt Service Reserve Requirement calculated immediately after the delivery of the Series 2002A Bonds, shall be deposited in the Debt Service Reserve Account.

(v) The balance of the proceeds of the Series 2002A Bonds shall be deposited in the Operating Account, or otherwise if directed by an Authorized Officer, to pay Costs of the Department not provided for above.

2.04. **Details of Series 2002A Bonds.** (a) Date, Maturities and Interest. The Series 2002A Bonds shall be dated and shall bear interest from November 1, 2002, and shall mature on the dates and in the principal amounts, and bear interest payable semi-annually on each May 1 and November 1 commencing May 1, 2003, as follows:

| <u>Maturity (May 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|-----------------------------|-----------------------------|--------------------------|
| 2005 | \$ 33,250,000 | 3.000% |
| 2005 | 84,625,000 | 5.500 |
| 2006 ³ | 46,840,000 | 3.000 |
| 2006 | 36,595,000 | 3.000 |
| 2006 ³ | 49,810,000 | 5.000 |
| 2006 | 26,150,000 | 5.500 |
| 2007 | 20,975,000 | 3.400 |
| 2007 ³ | 102,900,000 | 3.500 |
| 2007 ³ | 43,015,000 | 5.000 |
| 2007 ³ | 150,000,000 | 5.250 |
| 2007 | 93,100,000 | 5.500 |
| 2008 ² | 78,700,000 | 3.125 |
| 2008 | 23,080,000 | 3.750 |
| 2008 ³ | 107,060,000 | 5.000 |
| 2008 | 239,900,000 | 5.500 |
| 2009 ³ | 42,925,000 | 3.375 |
| 2009 | 26,115,000 | 4.000 |
| 2009 ³ | 17,595,000 | 5.000 |
| 2009 ³ | 200,000,000 | 5.250 |
| 2009 | 80,225,000 | 5.500 |
| 2010 ¹ | 25,675,000 | 3.600 |
| 2010 | 18,435,000 | 4.200 |
| 2010 ³ | 63,840,000 | 5.000 |
| 2010 ³ | 200,000,000 | 5.250 |
| 2010 | 130,300,000 | 5.500 |
| 2011 ³ | 16,235,000 | 3.700 |
| 2011 | 5,840,000 | 4.300 |
| 2011 ³ | 4,815,000 | 5.000 |
| 2011 ² | 200,000,000 | 5.250 |
| 2011 | 77,050,000 | 5.500 |
| 2012 ² | 10,820,000 | 3.800 |
| 2012 | 14,750,000 | 4.400 |
| 2012 ³ | 10,965,000 | 5.000 |
| 2012 ³ | 115,000,000 | 5.250 |
| 2012 ² | 85,000,000 | 5.250 |
| 2012 | 77,825,000 | 5.500 |
| 2013 ⁴ | 24,055,000 | 4.000 |
| 2013 | 9,365,000 | 4.600 |
| 2013 ² | 25,180,000 | 5.000 |
| 2013 ¹ | 300,000,000 | 5.500 |
| 2013 | 189,950,000 | 6.000 |
| 2014 ¹ | 15,630,000 | 4.125 |
| 2014 | 5,620,000 | 4.750 |

| <u>Maturity (May 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|-----------------------------|-----------------------------|--------------------------|
| 2014 ¹ | \$ 3,350,000 | 5.000% |
| 2014 ¹ | 300,000,000 | 5.500 |
| 2014 | 90,025,000 | 6.000 |
| 2015 ⁴ | 5,600,000 | 4.250 |
| 2015 | 2,910,000 | 4.850 |
| 2015 ¹ | 4,930,000 | 5.000 |
| 2015 | 14,960,000 | 5.250 |
| 2015 ¹ | 325,000,000 | 5.500 |
| 2015 | 115,000,000 | 6.000 |
| 2016 ¹ | 1,870,000 | 4.375 |
| 2016 | 5,720,000 | 4.900 |
| 2016 ¹ | 2,930,000 | 5.000 |
| 2016 ¹ | 325,000,000 | 5.500 |
| 2016 | 139,950,000 | 5.875 |
| 2017 ¹ | 4,950,000 | 4.400 |
| 2017 ¹ | 3,395,000 | 5.000 |
| 2017 | 20,285,000 | 5.000 |
| 2017 ⁴ | 305,345,000 | 5.375 |
| 2017 | 163,550,000 | 5.750 |
| 2018 ¹ | 29,730,000 | 4.500 |
| 2018 ¹ | 16,425,000 | 5.000 |
| 2018 | 170,575,000 | 5.125 |
| 2018 ¹ | 341,415,000 | 5.375 |
| 2019 | 170,000,000 | 5.125 |
| 2020 | 146,000,000 | 5.250 |
| 2021 | 163,000,000 | 5.375 |
| 2022 | 312,375,000 | 5.375 |

¹ Ambac Insured Bonds

² FSA Insured Bonds

³ MBIA Insured Bonds

⁴ XL Capital Insured Bonds

(b) Denominations and Numbering. The Series 2002A Bonds shall be issued in the form of fully registered Bonds in the denomination of \$5,000 or any integral multiple of \$5,000. Unless an Authorized Officer shall otherwise direct, the Series 2002A Bonds shall be numbered consecutively from one upward, and shall bear a prefix indicating the Series designation.

(c) Optional Redemption. Series 2002A Bonds maturing on or after May 1, 2013, shall be redeemable prior to their respective maturities at the option of the Department on or after May 1, 2012, at any time as a whole or in part in such order of maturity and interest rate and, within any maturity supported by more than one Enhancement Facility, selected among the Series 2002A Bonds supported by any

Enhancement Facility, as may be designated by the Department, at a Redemption Price equal to the principal amount of the Series 2002A Bonds to be redeemed, as set forth below, plus accrued interest to the Redemption Date:

| <u>Period During Which Redeemed</u> <u>(Both Dates Inclusive)</u> | <u>Redemption</u> <u>Price</u> |
|--|-----------------------------------|
| May 1, 2012 to October 31, 2012 | 101.0% |
| November 1, 2012 to April 30, 2013 | 100.5 |
| May 1, 2013 and thereafter | 100.0 |

(d) Payment of Principal and Interest. Principal and Redemption Price of each Series 2002A Bond shall be payable at the office of the Paying Agent designated for such purpose, upon presentation and surrender of such Series 2002A Bond.

The Registrar shall indicate on the Series 2002A Bonds the date of their authentication as provided in Section 2.05 hereof. Interest on the Series 2002A Bonds shall be payable from the interest payment date next preceding the date of authentication to which interest shall have been paid, unless such date of authentication is an interest payment date, in which case from such date if interest has been paid to such date; provided, however, that interest shall be payable on the Series 2002A Bonds from November 1, 2002, if the date of authentication is prior to the first interest payment date therefor. Interest on the Series 2002A Bonds shall be payable on the interest payment dates therefor to the registered Owner as of the close of business on the fifteenth (15) day (whether or not a Business Day) next preceding the respective interest payment date (the "Record Date"), such interest to be paid by the Paying Agent by check mailed to the registered Owner at such Owner's address as it appears on the books of registry required to be kept by the Registrar pursuant to the Indenture or by wire transfer of immediately available funds to the account specified by the Owner of at least \$1,000,000 aggregate principal amount of Series 2002A Bonds in a written direction received by the Paying Agent at its office designated for such purpose on or prior to the applicable Record Date; provided, however, that upon redemption of any Series 2002A Bond, the accrued interest payable upon redemption shall be payable at the office of the Paying Agent designated for such purpose, upon presentation and surrender of such Series 2002A Bond, unless the redemption date is an interest payment date, in which event the interest on such Series 2002A Bond so redeemed shall be paid by the Paying Agent as aforesaid. Any such direction shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Paying Agent.

The principal or Redemption Price of and interest on the Series 2002A Bonds shall also be payable at any other place which may be provided for such payment by the appointment of any other paying agent or paying agents as permitted by the Master Indenture.

The foregoing provisions of this subsection (d) shall be subject to the provisions of subsection (f) of this Section.

The principal of and premium, if any, and interest on the Series 2002A Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

Interest on overdue principal of and, to the extent lawful, on overdue premium and interest on the Series 2002A Bonds will be payable at the respective rates on such Series 2002A Bonds. Payment of defaulted interest will be made to the Owners of record on the fifth (5th) day (or if such day is not a Business Day, then the next preceding Business Day) immediately preceding the payment thereof.

(e) Registrar and Paying Agent. The Trustee is hereby appointed as the initial Registrar and initial Paying Agent for the Series 2002A Bonds. The Department may appoint additional or different Paying Agents and a different Registrar for the Series 2002A Bonds as provided in the Master Indenture and, if so, references herein to the Paying Agent and Registrar shall be deemed also to include such additional Paying Agents or Registrar, as the case may be.

(f) Securities Depository. The Series 2002A Bonds when initially issued shall be registered in the name of Cede & Co., as nominee of DTC, in the form of one or more fully registered Bonds for each maturity of the Series 2002A Bonds. DTC is hereby appointed initial Securities Depository for the Series 2002A Bonds, subject to the provisions of subsection (g) of this Section. So long as DTC or its nominee, as Securities Depository, is the registered owner of Series 2002A Bonds, individual purchases of beneficial ownership interests in such Series 2002A Bonds may be made only in book-entry form by or through DTC participants, and purchasers of such beneficial ownership interest in Series 2002A Bonds will not receive physical delivery of bond certificates representing the beneficial ownership interests purchased.

So long as DTC or its nominee, as Securities Depository, is the registered owner of Series 2002A Bonds, payments of principal of and premium, if any, and interest on such Series 2002A Bonds will be made by wire transfer to DTC or its nominee, or otherwise as may be agreed upon by the Department, the Trustee, the Paying Agent and DTC. Transfers of principal, premium, if any, and interest payments to DTC participants will be the responsibility of DTC. Transfers of such payments to Beneficial Owners of Series 2002A Bonds by DTC participants will be the responsibility of such participants and other nominees of such Beneficial Owners.

So long as DTC or its nominee, as Securities Depository, is the registered owner of Series 2002A Bonds, the Department shall send, or cause the Registrar to send, or take timely action to permit the Registrar to send, to DTC notice of redemption of such Series 2002A Bonds and any other notice required to be given to registered owners of Series 2002A Bonds pursuant to the Indenture, in the manner and at the times prescribed by the Indenture, except as may be agreed upon by the Department, the Registrar, the Trustee (if applicable) and DTC.

Neither the Department nor any Fiduciary shall have any responsibility or obligation to the DTC participants, Beneficial Owners or other nominees of such

Beneficial Owners for (1) sending transaction statements; (2) maintaining, supervising or reviewing, or the accuracy of, any records maintained by DTC or any DTC participant or other nominees of such Beneficial Owners; (3) payment or the timeliness of payment by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owner, of any amount due in respect of the principal of or redemption premium, if any, or interest on Series 2002A Bonds; (4) delivery or timely delivery by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owners, of any notice (including notice of redemption) or other communication which is required or permitted under the terms of the Indenture to be given to holders or owners of Series 2002A Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series 2002A Bonds; or (6) any action taken by DTC or its nominee as the registered owner of the Series 2002A Bonds.

Notwithstanding any other provisions of this Second Supplemental Indenture to the contrary, the Department, the Trustee, the Co-Trustee, the Registrar and any Paying Agent shall be entitled to treat and consider the person in whose name each Series 2002A Bond is registered in the books of registry as the absolute owner of such Bond for the purpose of payment of principal, Redemption Price, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent shall pay all principal and Redemption Price of and interest on the Series 2002A Bonds only to or upon the order of the respective Owners, as shown in the books of registry as provided in this Second Supplemental Indenture, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Department's obligations with respect to payment of principal and Redemption Price and interest on the Series 2002A Bonds to the extent of the sum or sums so paid.

Notwithstanding any other provisions of this Second Supplemental Indenture to the contrary, so long as any Series 2002A Bond is registered in the name of Cede & Co., as nominee of DTC, procedures with respect to the transfer of ownership of, redemption of, and payment of principal and Redemption Price of, premium, if any, and interest on such Series 2002B Bond, shall be in accordance with arrangements among DTC, the Department, the Paying Agent and, if applicable, the Trustee.

Payments by the DTC participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC participant and not of DTC, the Trustee, the Registrar, the Paying Agent or the Department, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Department may establish a record date for purposes of notification of and consents from participants of DTC in connection with any amendment or proposed amendment of the Indenture or otherwise.

Provisions similar to those contained in this subsection (f) may be made by the Department in connection with the appointment by the Department of a substitute Securities Depository, or in the event of a successor to any Securities Depository.

Authorized Officers are hereby authorized to enter into such representations and agreements as they deem necessary and appropriate in furtherance of the provisions of this subsection (f).

(g) Replacement Bonds. The Department shall issue Series 2002A Bond certificates (the “Replacement Bonds”) directly to the Beneficial Owners of the Series 2002A Bonds, or their nominees, in the event that DTC determines to discontinue providing its services with respect to such Series 2002A Bonds, at any time by giving notice to the Department, and the Department fails to appoint another qualified Securities Depository to replace DTC. In addition, the Department also shall issue Replacement Bonds directly to the Beneficial Owners of the Series 2002A Bonds, or their nominees, in the event the Department discontinues use of DTC as Securities Depository at any time upon determination by the Department, in its sole discretion and without the consent of any other person, that Beneficial Owners of the Series 2002A Bonds shall be able to obtain certificated Series 2002A Bonds.

(h) Notices. In connection with any notice of redemption provided in accordance with Section 405 of the Master Indenture and this Second Supplemental Indenture, notice of such redemption shall also be sent by the Trustee by first class mail, overnight delivery service or other secure overnight means, postage prepaid, to each Rating Agency and to at least two (2) of the national Information Services (described below) that disseminate securities redemption notices, in each case not later than the mailing of notice required by the Indenture.

Information Services include: Financial Information, Inc. “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey, 07302, Attention: Editor; Kenny Information Services, “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10004; Mergent, 60 Madison Avenue, 6th Floor, New York, New York 10010, Attention: Municipal News Reports; and Standard and Poor’s Ratings Group “Called Bond Record,” 55 Water Street, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the Department may designate in writing to the Trustee and the Registrar.

2.05. Form of Series 2002A Bonds and Registrar’s Certificate of Authentication. Subject to the provisions of the Master Indenture, the form of the Series 2002A Bonds, form of assignment, and the Registrar’s Certificate of Authentication shall be in substantially the form set forth in **Appendix A** hereto, with necessary or appropriate variations, omissions and insertions as are incidental to their series, numbers, denominations, maturities, interest rate or rates, registration provisions, redemption provisions, status of interest to owners thereof for federal income tax purposes, and other details thereof and of their form or as are otherwise permitted or

required by law or by the Indenture, including this Second Supplemental Indenture. Any portion of the text of any Series 2002A Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of such Bond. Series 2002A Bonds may be typewritten, printed, engraved, lithographed or otherwise reproduced.

ARTICLE III

ENHANCEMENT FACILITIES

3.01. **Bond Insurance.** (a) Ambac has committed to issue a Policy guaranteeing the scheduled payment of principal of and interest on the Ambac Insured Bonds, as provided in such Policy. FSA has committed to issue a Policy guaranteeing the scheduled payment of principal of and interest on the FSA Insured Bonds, as provided in such Policy. MBIA has committed to issue a Policy guaranteeing the scheduled payment of principal of and interest on the MBIA Insured Bonds, as provided in such Policy. XL Capital has committed to issue a Policy guaranteeing the scheduled payment of principal of and interest on the XL Capital Insured Bonds, as provided in such Policy. Each such commitment is referred to herein as a “Commitment”.

(b) Each Policy constitutes an Enhancement Facility, and payments by the Department under the Commitment constitute Bond Related Costs, under the Indenture.

(c) In order to comply with the conditions precedent to the Insurers’ commitments to issue the Policies under the Commitments, the provisions of **Appendix B-1** hereto shall be in effect with respect to the Ambac Insured Bonds, the provisions of **Appendix B-2** hereto shall be in effect with respect to the FSA Insured Bonds, the provisions of **Appendix B-3** hereto shall be in effect with respect to the MBIA Insured Bonds, and the provisions of **Appendix B-4** hereto shall be in effect with respect to the XL Capital Insured Bonds, and shall be binding upon the Owners of such respective Bonds, the Trustee, the Co-Trustee and the Paying Agent.

(d) Any of the foregoing provisions in this Section 3.01 or in **Appendix B** hereto may be waived by the Insurer affected thereby, or amended by agreement between such Insurer and the Department and, if applicable, the Trustee, the Co-Trustee or the Paying Agent, without notice to or consent of any Owner of any Bonds, except to the extent provided by **Appendix B-1, B-2, B-3 or B4**.

ARTICLE IV

AMENDMENT OF MASTER INDENTURE

4.01. **Amendment of Master Indenture.** Pursuant to clause (2) of Section 801 of the Master Indenture, Section 613 of the Master Indenture is amended to read as follows:

613. Continuing Disclosure. The Department will post on its website, so long as it maintains a website, (1) within forty-five (45) days

after the end of each fiscal year quarter except the fourth quarter, unaudited financial statements of the Department relating to its Electric Power Fund for such quarter, (2) within one hundred twenty (120) days after the end of each fiscal year, audited financial statements of the Department relating to its Electric Power Fund for such fiscal year, and (3) each Revenue Requirement filing made by the Department with the Commission pursuant to Section 605, within ten (10) Business Days after such filing. Such audited and unaudited financial statements shall separately state the balances in the Operating Account, Priority Contract Account, Operating Reserve Account, Bond Charge Collection Account, Bond Charge Payment Account and Debt Service Reserve Account.

The Department will send to each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, each document referred to in, and at the times required by, clause (i) of the immediately preceding paragraph.

The Department shall send, by first class mail to any Person filing with the Chief, Division of Fiscal Services, or the Deputy Controller of the Department a written request therefor, to the address specified by such Person, unless and until it appears to the Department that notices sent are not being delivered, (1) notice of each posting and filing required by the foregoing provisions of this Section 613 (or, if the Department no longer maintains a website and/or there is no NRMSIR, as applicable, the documents that otherwise would have been posted or filed), within ten (10) Business Days after such posting or filing, as the case may be, (2) notice of each Commission action establishing charges relating to each Revenue Requirement filing, within ten (10) Business Days after such action, (3) notice of each draw on the Operating Reserve Account and Debt Service Reserve Account, within ten (10) Business Days after such draw, (4) while the Department is purchasing the Residual Net Short, if the Operating Account balance falls below, or is restored to, both \$750 million and \$500 million, notice within ten (10) Business Days thereof, and (5) notice of any litigation to which the Department is a party, in which a party seeks to restrain or enjoin the implementation of any Bond Charge in whole or part, within ten (10) Business Days of service of process on the Department.

Notwithstanding anything in Article X of the Indenture to the contrary (including but not limited to the definition of Event of Default and limitations on the exercise of remedies), (i) any failure on the part of the Department to comply with the provisions of this Section 613 shall not be deemed to be a default or an Event of Default under the Indenture, and (ii) the Trustee may (and, at the request of the Owners of at least 50% in aggregate principal amount of Outstanding Bonds, shall), or any Owner or

Beneficial Owner of the Bonds may (unless the Department has so complied within 20 days after written notice from the Trustee, such Owner or Owners, or such Beneficial Owner or Beneficial Owners, as the case may be, of the Department's failure to comply) seek specific performance by court order, to cause the Department to comply with its obligations under this Section 613, as the sole remedy. For this purpose, "Beneficial Owner" means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories and other intermediaries).

4.02. **Restated Master Indenture.** The form of the Master Indenture may be restated to incorporate the amendments made by Section 4.01 hereof.

ARTICLE V

MISCELLANEOUS

5.01. **Tax Covenant.** (a) The Department shall not take or omit to take any action which would cause interest on any Series 2002A Bond to be included in the gross income of any Owner thereof for Federal income tax purposes by reason of subsection (b) of Section 103 of the Code. Without limiting the generality of the foregoing, no part of the proceeds of the Series 2002A Bonds or any other funds of the Department shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Series 2002A Bond to be an "arbitrage bond" as defined in Section 148 of the Code and to be subject to treatment under subsection (b)(2) of Section 103 of the Code as an obligation not described in subsection (a) of said section. The Department shall pay to the United States any amounts that are necessary for the purpose of compliance with the provisions of Section 148 of the Code. The provisions of this subsection (a) shall survive the defeasance and payment of the Series 2002A Bonds.

(b) Notwithstanding any other provision of the Indenture to the contrary, upon the Department's failure to observe, or refusal to comply with, the above covenant in paragraph (a), the Owners, or the Trustee acting on their behalf, shall be entitled only to the right of specific performance of such covenant, to the extent permitted under Article X of the Indenture, and shall not be entitled to any of the other rights and remedies provided under Article X of the Master Indenture.

5.02. **Certain Findings and Determinations.** The Trustees hereby find and determine:

(a) The Master Indenture has not been amended, supplemented, or repealed since the adoption thereof except by the First Supplemental Trust Indenture dated as of October 1, 2002, the Third Supplemental Trust Indenture, dated as of November 1, 2002, and this Second Supplemental Indenture. This Second Supplemental Indenture supplements the Master Indenture as heretofore supplemented, constitutes and

is a “Supplemental Indenture” within the meaning of such quoted term as defined and used in the Master Indenture, and is adopted under and pursuant to the Master Indenture.

(b) The Series 2002A Bonds constitute and are “Bonds” within the meaning of the quoted word as defined and used in the Indenture.

(c) The Trust Estate is not encumbered by any lien or charge thereon or pledge thereof, other than the lien and charge thereon and pledge thereof securing the existing Outstanding Notes and the related Credit and Security Agreement.

(d) There does not exist an “Event of Default” within the meaning of such quoted term as defined in Section 1001 of the Indenture, nor does there exist any condition which, after the giving of notice or the passage of time, or both, would constitute such an “Event of Default.”

5.03. Authorized Officers; Further Authority. The Authorized Officers are hereby authorized to execute and deliver such documents and certifications as may be necessary to give effect to this Second Supplemental Indenture and the transactions contemplated hereby.

5.04. Effective Date. This Second Supplemental Indenture shall be fully effective in accordance with its terms upon its execution and delivery by the Department, the Trustee and the Co-Trustee, and upon the delivery to the Trustee and the Co-Trustee of the Counsel’s Opinion required by subsection 2 of Section 805 of the Master Indenture.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties have caused this Second Supplemental Indenture to be duly executed, all as of the date first above written.

CALIFORNIA DEPARTMENT OF
WATER RESOURCES

By: _____
Director

TREASURER OF THE STATE OF
CALIFORNIA, as Trustee

By: _____
Name:
Title:

U.S. BANK, N.A.,
as Co-Trustee

By: _____
Name:
Title:

[Signature Page of Second Supplemental Indenture]

APPENDIX A
Form of Series 2002A Bonds

[Until such time as the Series 2002A Bonds are no longer restricted to being registered in the registration books kept by the Registrar in the name of a Securities Depository, each Series 2002A Bond shall contain or have endorsed thereon the following legends:

AS PROVIDED IN THE INDENTURE REFERRED TO HEREIN, UNTIL THE TERMINATION OF THE SYSTEM OF BOOK-ENTRY-ONLY TRANSFERS THROUGH THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK, (TOGETHER WITH ANY SUCCESSOR SECURITIES DEPOSITORY APPOINTED PURSUANT TO THE INDENTURE, "DTC"), AND NOTWITHSTANDING ANY OTHER PROVISION OF THE INDENTURE TO THE CONTRARY, A PORTION OF THE PRINCIPAL AMOUNT OF THIS BOND MAY BE PAID OR REDEEMED WITHOUT SURRENDER HEREOF TO THE PAYING AGENT. DTC OR A NOMINEE, TRANSFEREE OR ASSIGNEE OF DTC OF THIS BOND MAY NOT RELY UPON THE PRINCIPAL AMOUNT INDICATED HEREON AS THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID. THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID SHALL FOR ALL PURPOSES BE THE AMOUNT DETERMINED IN THE MANNER PROVIDED IN THE INDENTURE.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED OFFICER OF DTC (A) TO THE TRUSTEE OR OTHER REGISTRAR FOR REGISTRATION OF TRANSFER OR EXCHANGE OR (B) TO THE TRUSTEE OR OTHER PAYING AGENT FOR PAYMENT OF PRINCIPAL OR REDEMPTION PRICE, AND ANY BOND ISSUED IN REPLACEMENT HEREOF OR SUBSTITUTION HEREFOR IS REGISTERED IN THE NAME OF DTC OR ITS NOMINEE OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC AND ANY PAYMENT IS MADE TO DTC OR ITS NOMINEE, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL BECAUSE ONLY THE REGISTERED OWNER HEREOF, CEDE & CO., AS NOMINEE OF DTC, HAS AN INTEREST HEREIN.]

No. 2002A - _____

\$ _____

STATE OF CALIFORNIA

DEPARTMENT OF WATER RESOURCES

Power Supply Revenue Bonds, Series 2002A

| <u>Bond Date</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>CUSIP</u> |
|-------------------|----------------------|----------------------|--------------|
| Registered Owner: | CEDE & CO. | May 1, _____ | |

Principal Amount: _____ Dollars

The STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES (the "Department") acknowledges itself indebted to, and for value received hereby promises to pay, but solely from the Trust Estate and not otherwise, to the Registered Owner specified above or registered assigns, the Principal Amount specified above on the Maturity Date specified above (subject to the right of prior redemption hereinafter mentioned) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, upon presentation and surrender at the office of the Paying Agent designated for such purpose, and to pay to the Registered Owner hereof interest on such Principal Amount in like coin or currency and at the rate of interest per annum specified above. Interest on this Bond shall be payable from the May 1 or November 1 next preceding the date of authentication to which interest shall have been paid, unless such date of authentication is a May 1 or November 1, in which case from such date if interest has been paid to such date; provided, however, that such interest shall be payable on this Bond from the Bond Date specified above if the date of authentication is prior to the first interest payment date therefor. Interest on this Bond shall be payable semi-annually on May 1 and November 1 in each year commencing May 1, 2003, in each case to the registered owner as of the close of business on the fifteenth day (whether or not a Business Day) of the calendar month next preceding the calendar month in which the interest payment date occurs (the "Record Date"), such interest to be paid by the Paying Agent by check mailed to the Registered Owner at such Owner's address as it appears on the books of registry required to be kept by the Registrar pursuant to the Indenture or by wire transfer of immediately available funds to the account specified by the Owner of at least \$1,000,000 aggregate principal amount of Series 2002A Bonds hereafter referred to in a written direction received by the Paying Agent at its office designated for such purpose on or prior to the Record Date; provided, however, that upon redemption of this Bond, the accrued interest payable upon redemption shall be payable at the office of the Paying Agent designated for such purpose, upon presentation and surrender of this Bond, unless the redemption date is an interest payment date, in which event the interest on this Bond so redeemed shall be paid by the Paying Agent as aforesaid. Interest on overdue

principal of and, to the extent lawful, on overdue premium and interest shall be paid as provided by the Second Supplemental Indenture hereafter referred to. If any payment on this Bond is due on a day other than a Business Day, payment will be made on the next Business Day, and no interest will accrue as a result.

This Bond is one of a duly authorized issue of bonds of the Department designated as its "Bonds" issued and to be issued in various series under and pursuant to Division 27 (commencing with Section 80000) of the California Water Code, as amended (the "Act"), and under and pursuant to a Trust Indenture dated as of October 1, 2002, as amended (the "Master Indenture"), among the Department, the Treasurer of the State of California, as Trustee (including its successors, the "Trustee"), and U.S. Bank, N.A., as Co-Trustee (including its successors, the "Co-Trustee"), authorizing and securing the Department's Power Supply Revenue Bonds, and a Second supplemental Trust Indenture dated as of November 1, 2002 (the "Second Supplemental Indenture") among the Department, the Trustee and the Co-Trustee. The Master Indenture and the Second Supplemental Indenture, as the same may be amended, are herein collectively called the "Indenture". Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Indenture.

This Bond is one of a series of Bonds of various maturities designated as "Power Supply Revenue Bonds, Series 2002A" (the "Series 2002A Bonds") issued in the aggregate principal amount of \$6,313,500,000 under the Indenture. Copies of the Indenture are on file at the office of the Department and at the offices of the Trustee and Co-Trustee designated for such purpose. The Trustee is also the initial Registrar and initial Paying Agent for the Series 2002A Bonds. The Department may appoint additional or different Paying Agents and a different Registrar for the Series 2002A Bonds as provided in the Indenture and, if so, references herein to the Paying Agent and Registrar shall be deemed also to include such additional Paying Agents or Registrar, as the case may be.

The Bonds are payable as to principal, Redemption Price, and interest solely from and are equally and ratably secured solely by the Trust Estate, subject to the provisions of the Indenture permitting the application of such Trust Estate to the purposes and on the terms and conditions set forth in the Indenture, including, without limitation, the prior application of Power Charge Revenues to the payment of Operating Expenses, the prior application of Bond Charge Revenues to the payment of Priority Contract Costs, Outstanding Notes and related costs of the Department, and the application of Bond Charge Revenues to the payment of certain costs on a parity with the Bonds. The principal and Redemption Price of and interest on the Bonds shall not be payable from the general funds of the Department nor shall the Bonds constitute a legal or equitable pledge, charge, lien or encumbrance upon any of the property or upon any of the income, receipts or revenues of the Department, except the Trust Estate.

Reference is hereby made to the Indenture, and to all of the provisions of which any holder of this Series 2002A Bond by his acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the pledge and covenants securing the Bonds, including this Series 2002A Bond; the Revenues and other

moneys and securities constituting the Trust Estate pledged to the payment of the principal of and interest on the Bonds; the nature and extent and manner of enforcement of the pledge thereunder; the conditions upon which the Indenture may be amended or supplemented with or without the consent of the Owners of the Bonds; the rights and remedies of the Owner hereof with respect hereto and thereto, including the limitations therein contained upon the right of an Owner hereof to institute any suit, action or proceeding in equity or at law with respect hereto and thereto and, if this Bond is secured by a Credit Facility, limitations on the ability of an Owner to exercise approval or consent rights or take other action; the rights, duties and obligations of the Department, the Trustee and the Co-Trustee hereunder and thereunder; the terms and provisions upon which the pledges and covenants made therein may be discharged at or prior to the maturity or redemption of this Series 2002A Bond, and the Series 2002A Bond thereafter no longer be secured by the Indenture or be deemed to be Outstanding thereunder, if moneys or certain specified securities shall have been deposited with the Trustee or Paying Agent sufficient and held in trust solely for the payment hereof; and for the other terms and provisions thereof.

As provided in the Indenture, Bonds may be issued from time to time pursuant to Supplemental Indentures in one or more series, in various principal amounts, may mature at different times, may bear interest at different rates and may otherwise vary as provided in the Indenture. The aggregate principal amount of Bonds which may be issued under the Indenture is not limited except as provided in the Indenture, and all Bonds issued and to be issued under the Indenture are and will be equally secured by the pledge and covenants made therein, except as otherwise expressly provided or permitted in the Indenture.

This Series 2002A Bond is transferable, as provided in the Indenture, only upon the books of registry of the Department kept for that purpose at the above-mentioned office of the Registrar by the Owner hereof in person, or by his attorney duly authorized in writing, upon surrender of the Bond together with a written instrument of transfer satisfactory to the Registrar duly executed by the Owner or his duly authorized attorney, and thereupon a new registered Series 2002A Bond or Bonds, and in the same aggregate principal amount, Series, maturity and interest rate shall be issued to the transferee in exchange therefor as provided in the Indenture, and upon payment of the charges therein prescribed. The Department and each Fiduciary may deem and treat the Person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof and interest due hereon and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Department nor any Fiduciary shall be affected by any notice to the contrary.

Series 2002A Bonds maturing on and after May 1, 2013, shall be redeemable prior to their respective maturities at the option of the Department on or after May 1, 2012, at any time as a whole or in part in such order of maturity and interest rate and, within any maturity supported by more than one Enhancement Facility, selected among the Series 2002A Bonds supported by any Enhancement Facility, as may be

designated by the Department, at a Redemption Price equal to the principal amount of the Series 2002B Bonds to be redeemed, as set forth below, plus accrued interest to the Redemption Date:

| Period During Which Redeemed (Both Dates Inclusive) | Redemption Price |
|--|---------------------|
| May 1, 2012 to October 31, 2012 | 101.0% |
| November 1, 2012 to April 30, 2013 | 100.5 |
| May 1, 2013 and thereafter | 100.0 |

When the Registrar shall receive notice from the Department of its election to redeem Bonds pursuant to the Indenture, and when redemption of Bonds is required by the Indenture, the Registrar shall give notice, in the name of the Department, of the redemption of such Bonds, which notice shall specify the Series, maturities and, if any maturity shall include Bonds bearing different interest rates and all Bonds of such maturity are not being redeemed, interest rate of the Bonds to be redeemed, the Redemption Date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series, maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the Redemption Date, and that from and after such date interest thereon shall cease to accrue and be payable, unless, in the case of any conditional notice, such conditions are not satisfied or such notice is rescinded, and unless in other cases moneys sufficient for such redemption shall not have been deposited with the Paying Agent. Such notice shall be given by first class mail, postage prepaid, not less than 30 days nor more than 60 days before the redemption date, to the Owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure so to mail any such notice to any particular Owner shall not affect the validity of the proceedings for the redemption of Bonds not owned by such Owner and failure of any Owner to receive such notice shall not affect the validity of the proposed redemption of Bonds.

Any notice of optional redemption may state that it is conditional upon receipt by the Registrar of moneys sufficient to pay the Redemption Price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such Redemption Price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Registrar to affected Owners of Bonds, in the same manner as the conditional notice of redemption was given, as promptly as practicable upon the failure of such condition or the occurrence of such other event.

THE PRINCIPAL OF THE SERIES 2002A BONDS MAY NOT BE DECLARED DUE AND PAYABLE BEFORE THE MATURITY THEREOF AS A RESULT OF AN EVENT OF DEFAULT UNDER THE INDENTURE.

The Act provides that neither the person executing the determination to issue Bonds nor any person executing the Series 2002A Bonds shall be personally liable or be subject to any personal liability or accountability by reason of the issuance thereof.

Pursuant to Section 80200(e) of the California Water Code, the Department, as agent for the State of California, does hereby pledge to and agree with the holder of this Bond that while this Bond remains outstanding and not fully performed or discharged, the rights, powers, duties and existence of the Department and the California Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests or rights of the holders of this Bond.

Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on this Bond.

It is hereby certified and recited that all conditions, acts and things required by law and the Indenture to exist, to have happened and to have been performed precedent to and in the issuance of this Bond, exist, have happened and have been performed and that the issuance of the Series 2002A Bonds, together with all other indebtedness of the Department, is within every debt and other limit prescribed by the laws of the State of California.

This Bond shall not be entitled to any benefit under the Indenture or be valid or become obligatory for any purpose until this Bond shall have been authenticated by the execution by the Registrar of the Registrar's Certificate of Authentication hereon.

IN WITNESS WHEREOF, THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES has caused this Bond to be signed in its name and on its behalf by the manual or facsimile signature of an Authorized Officer and attested by the facsimile signature of another Authorized Officer.

STATE OF CALIFORNIA
DEPARTMENT OF WATER
RESOURCES

By: _____
Authorized Officer

Attest:

Authorized Officer

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

Please insert Social Security or Taxpayer Identification Number of Transferee

/ _____ /

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and
appoints

attorney to register the transfer of the within Bond on the books kept for registration
thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be
guaranteed by a member or participant of
a signature program.

NOTICE: The signature above must
correspond with the name of the Owner as
it appears upon the front of this Bond in
every particular, without alteration or
enlargement or change whatsoever.

AUTHENTICATION DATE:

Registrar's Certificate of Authentication

This Bond is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

TREASURER OF THE STATE OF
CALIFORNIA
Registrar

By: _____
Authorized Officer

APPENDIX B-1

SPECIAL PROVISIONS RELATING TO AMBAC INSURANCE

Pursuant and subject to Section 3.01 of the Second Supplemental Indenture, the following provisions are hereby made applicable with respect to the Ambac Insured Bonds pursuant to the Policy issued by Ambac insuring the Ambac Insured Bonds (the “Ambac Policy”).

1. So long as the Ambac Policy is in full force and effect and payment on the Ambac Policy is not in default, then

(i) (a) Ambac shall be deemed to be the sole Owner of the Ambac Insured Bonds when the approval, consent or action of the Owners of such Ambac Insured Bonds is required or may be exercised under the Indenture, except for purpose of the second sentence of Section 902 of the Master Indenture with respect to modifications and amendments only with the consent of particular Owners of Bonds, and (b) with respect to such modifications and amendments, the consent of Ambac shall be required in addition to the consent of the Owners of applicable Ambac Insured Bonds, and

(ii) any amendment or modification of the Indenture, the Rate Agreement, the Servicing Arrangements or the Master Credit and Liquidity Agreement which would require the consent of the Owners of the Bonds under Section 902 of the Master Indenture shall also require the consent of (a) Ambac if such amendment or modification would have an adverse affect on the rights or interests of Ambac but not on the rights or interests of all Insurers or (b) a majority of the Outstanding Bonds insured by the Insurers, as exercised by the Insurers pursuant to clause (i) of this paragraph.

Pursuant to Section 3.01(c) of the Second Supplemental Indenture, the provisions of clause (i) of the immediately preceding sentence requiring the consent of particular Owners of Ambac Insured Bonds in addition to the consent of Ambac may not be waived by Ambac or amended by agreement between Ambac and the Department and, if applicable, the Trustee, the Co-Trustee or the Paying Agent. No provision of this Second Supplemental Indenture expressly recognizing or granting rights in or to Ambac may be amended without the prior written consent of Ambac.

2. In the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and/or interest due on any Ambac Insured Bonds shall be paid by Ambac under the provisions of the Ambac Policy, such Ambac Insured Bonds shall continue to be Outstanding under the Indenture for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Department; the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Department to the Owners of such Ambac Insured Bonds shall

continue to exist and the Indenture shall remain in full force and effect; and Ambac shall be subrogated to the rights of such Owners.

3. Ambac shall be a third party beneficiary of the Indenture.

4. In determining whether the Owners of Ambac Insured Bonds will be adversely affected by any action taken pursuant to the terms of the Indenture, the Department, the Trustee and the Co-Trustee, shall consider the effect on the Owners as if there were no Ambac Policy.

5. The rights granted to Ambac under the Indenture to request, consent to or direct any action are rights granted to Ambac in consideration of the issuance of the Ambac Policy. Any exercise by Ambac of such rights is merely an exercise of Ambac's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners, nor does such action evidence any position of Ambac, positive or negative, as to whether Owner consent is required in addition to consent of Ambac.

6. Payment under Ambac Policy. (a) At least one (1) day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds to pay the principal of or interest on the Ambac Insured Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds, the Trustee shall so notify Ambac. Such notice shall specify the amount of the anticipated deficiency, the Ambac Insured Bonds to which such deficiency is applicable and whether such Ambac Insured Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified Ambac at least one (1) day prior to an Interest Payment Date, Ambac will make payments of principal or interest due on the Ambac Insured Bonds on or before the first day next following the date on which Ambac shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to Ambac as provided in (a) above, make available, or cause the Ambac Insured Bonds Paying Agent or Ambac Insured Bonds Registrar to make available, to Ambac and, at Ambac's direction, to The Bank of New York, in New York, New York, as insurance trustee for Ambac or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Department maintained by the Registrar and all records relating to the funds and accounts maintained under the Indenture.

(c) The Trustee shall provide, or cause the Ambac Insured Bonds Paying Agent or Ambac Insured Bonds Registrar to make available, Ambac and the Insurance Trustee with a list of Owners of Ambac Insured Bonds entitled to receive principal or interest payments from Ambac under the terms of the Ambac Policy, and shall make arrangements, or cause the Ambac Insured Bonds Paying Agent or Ambac Insured Bonds Registrar to make arrangements, with the Insurance Trustee (i) to mail checks or drafts to the Owners of Ambac Insured Bonds entitled to receive full or partial interest payments from Ambac and (ii) to pay principal upon Ambac Insured Bonds

surrendered to the Insurance Trustee by the Owners of Ambac Insured Bonds entitled to receive full or partial principal payments from Ambac.

(d) The Trustee shall, at the time it provides notice to Ambac pursuant to (a) above, notify, or cause the Ambac Insured Bonds Paying Agent or Ambac Insured Bonds Registrar to notify, Owners of Ambac Insured Bonds entitled to receive the payment of principal or interest thereon from Ambac (i) as to the fact of such entitlement, (ii) that Ambac will remit to them all or a part of the interest payments next coming due upon proof of Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac, they must surrender their Ambac Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Ambac Insured Bonds to be registered in the name of Ambac) for payment to the Insurance Trustee, and not to the Ambac Insured Bonds Paying Agent, and (iv) that should they be entitled to receive partial payment of principal from Ambac, they must surrender their Ambac Insured Bonds for payment thereon first to the Ambac Insured Bonds Paying Agent, who shall note on such Ambac Insured Bonds the portion of the principal paid by the Ambac Insured Bonds Paying Agent, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal of or interest on an Ambac Insured Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Department has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time Ambac is notified, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish, or cause the Ambac Insured Bonds Paying Agent to furnish, to Ambac its records evidencing the payments of principal of and interest on the Ambac Insured Bonds which have been made by the Ambac Insured Bonds Paying Agent and subsequently recovered from registered owners and the dates on which such payments were made.

7. Only cash (insured at all times by the Federal Deposit Insurance Corporation) and the following securities shall be authorized to be used to effect defeasance of the Ambac Insured Bonds pursuant to Section 1101 of the Master Indenture:

(i) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGs");

(ii) the following obligations backed by the full faith and credit of the United States and issued by one of the following agencies:

- (a) obligations of the Farmers Home Administration (FmHA);
- (b) obligations of the Government National Mortgage Association (GNMA);
- (c) participation certificates issued by the General Services Administration; and
- (d) guaranteed Title XI financing of the U.S. Maritime Administration; and
- (iii) the obligations issued by one of the following agencies:
 - (a) debt obligations of the Federal Home Loan Mortgage Corp. (FHLMC);
 - (b) obligations of the Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives);
 - (c) obligations of the Federal Home Loan Banks (FHL Banks);
 - (d) debt obligations of the Federal National Mortgage Association (FNMA);
 - (e) debt obligations of the Financing Corp. (FICO);
 - (f) debt obligations of the Resolution Funding Corp. (REFCORP); and
 - (g) notes guaranteed by the U.S. Agency for International Development (U.S.A.I.D.).

8. To accomplish legal defeasance of Ambac Insured Bonds, the Department shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to Ambac ("Accountant") verifying the sufficiency of the escrow established to pay the Ambac Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an escrow agreement (which shall be acceptable in form and substance to Ambac), (iii) an opinion of nationally recognized bond counsel to the effect that the Ambac Insured Bonds are no longer "Outstanding" under the Indenture and (iv) if there is a Trustee for the Ambac Insured Bonds, a certification of discharge of the Trustee with respect to the Ambac Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Department, the Trustee, the Co-Trustee and Ambac. Ambac shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow, or such shorter period as shall be acceptable to Ambac. Ambac Insured Bonds shall be deemed

“Outstanding” under the Indenture unless and until they are in fact paid and retired or the above criteria are met and any additional requirements of Section 1101 of the Master Indenture have been satisfied.

9. The Trustee shall invest amounts on deposit in any fund, account or subaccount under the Indenture in Authorized Investments described in clause (iii) or (iv) of such definition only if such Authorized Investments are rated “A” or better (without regard to ratings modifiers) by at least two Rating Agencies.

10. The Trustee or the Co-Trustee shall furnish to Ambac (to the attention of the General Counsel’s office), as soon as practicable, notice of (i) the failure of the Department to give or make any of the certificates, notices, reports or filings it is required to give or make pursuant to the Indenture, (ii) the insufficiency of amounts on deposit with the Trustee and available to make any payments of principal or interest on the Ambac Insured Bonds when due, and (iii) the occurrence of any Event of Default actually known to it.

11. The notice address of Ambac is: Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, Attention: Surveillance (except in the case of notices given pursuant to paragraph 10, which shall be marked “Attention: General Counsel’s Office”), Telephone: (212) 208-3283; Telecopier: (212) 208-3558.

APPENDIX B-2

SPECIAL PROVISIONS RELATING TO FSA INSURANCE

Pursuant and subject to Section 3.01 of the Second Supplemental Indenture, the following provisions are hereby made applicable with respect to the FSA Insured Bonds pursuant to the Policy issued by FSA insuring the FSA Insured Bonds (the “FSA Policy”).

1. So long as the FSA Policy is in full force and effect and payment on the FSA Policy is not in default, then

(i) (a) FSA shall be deemed to be the sole Owner of the FSA Insured Bonds when the approval, consent or action of the Owners of such FSA Insured Bonds is required or may be exercised under the Indenture, except for purposes of the second sentence of Section 902 of the Master Indenture with respect to modifications and amendments only with the consent of particular Owners of Bonds, and (b) with respect to such modifications and amendments, the consent of FSA shall be required in addition to the consent of Owners of applicable FSA Insured Bonds, and

(ii) any amendment or modification of the Indenture, the Rate Agreement, the Servicing Arrangements or the Master Credit and Liquidity Agreement which would require the consent of the Owners of the Bonds under Section 902 of the Master Indenture shall also require the consent of (a) FSA if such amendment or modification would have an adverse affect on the rights or interests of FSA but not on the rights or interests of all Insurers or (b) a majority of the Outstanding Bonds insured by the Insurers, as exercised by the Insurers pursuant to clause (i) of this paragraph.

Pursuant to Section 3.01(c) of the Second Supplemental Indenture, the provisions of clause (i) of the immediately preceding sentence requiring the consent of particular Owners of FSA Insured Bonds in addition to the consent of FSA may not be waived by FSA or amended by agreement between FSA and the Department and, if applicable, the Trustee, the Co-Trustee or the Paying Agent. No provision of this Second Supplemental Indenture expressly recognizing or granting rights in or to FSA may be amended without the prior written consent of FSA.

2. In the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and interest due on any FSA Insured Bonds shall be paid under the provisions of the FSA Policy, such FSA Insured Bonds shall continue to be Outstanding under the Indenture; all covenants, agreements and other obligations of the Department to the Owners of such FSA Insured Bonds shall continue to exist; and FSA shall be subrogated to the rights of such Owners.

3. FSA shall be a third party beneficiary of the Indenture.
4. In determining whether the Owners of FSA Insured Bonds will be adversely affected by any action taken pursuant to the terms of the Indenture, the Department, the Trustee and the Co-Trustee shall consider the effect on the Owners as if there were no FSA Policy.
5. The rights granted to FSA under the Indenture to request, consent to or direct any action are rights granted to FSA in consideration of the issuance of the FSA Policy. Any exercise by FSA of such rights is merely an exercise of the FSA's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners, nor does such action evidence any position of FSA, positive or negative, as to whether Owner consent is required in addition to consent of FSA.
6. Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) pre-refunded municipal obligations rated "AAA" and "Aaa" by Standard & Poor's and Moody's, respectively, or (5) securities eligible for "AAA" defeasance under then existing criteria of Standard & Poor's or any combination thereof, shall be authorized to be used to effect defeasance of the FSA Insured Bonds unless the FSA otherwise approves.
7. To accomplish legal defeasance of FSA Insured Bonds, the Department shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to FSA ("Accountant") verifying the sufficiency of the escrow established to pay the FSA Insured Bonds in full on the maturity or redemption date ("Verification"), (ii) an escrow agreement (which shall be acceptable in form and substance to FSA), (iii) an opinion of nationally recognized bond counsel to the effect that the FSA Insured Bonds are no longer "Outstanding" under the Indenture and (iv) if there is a Trustee for the FSA Insured Bonds, a certification of discharge of the Trustee with respect to the FSA Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Department, the Trustee, the Co-Trustee and FSA. FSA shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow, or such shorter period as shall be acceptable to FSA. FSA Insured Bonds shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met and any additional requirements of Section 1101 of the Master Indenture have been satisfied.
8. Amounts paid by FSA under the Insurance Policy shall not cause the FSA Insured Bonds to be deemed paid for purposes of the Indenture and shall remain Outstanding and continue to be due and owing until paid by the Department in

accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to FSA have been paid in full or duly provided for.

9. Claims upon the FSA Policy and Payments by and to FSA. (a) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (“Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the FSA Insured Bonds due on such Payment Date, the Trustee shall give notice to FSA and to its designated agent (if any) (“FSA’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by 2:00 p.m., New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the FSA Insured Bonds due on such Payment Date, the Trustee shall make a claim under the FSA Policy and give notice to FSA and FSA’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the FSA Insured Bonds and the amount required to pay principal of the FSA Insured Bonds, confirmed in writing to FSA and FSA’s Fiscal Agent by 2:00 p.m., New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the FSA Policy.

(b) In the event the claim to be made is for a mandatory Sinking Fund Installment Redemption, upon receipt of the moneys due, the Trustee shall cause the Registrar to authenticate and deliver to affected Owners who surrender their FSA Insured Bonds a new FSA Insured Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the FSA Insured Bond surrendered. The Trustee shall designate any portion of payment of principal on FSA Insured Bonds paid by FSA, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of FSA Insured Bonds registered to the then current Owner, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to FSA, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to Authorized Denominations); provided that the Trustee’s failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Department on any Bond or the subrogation rights of FSA.

(c) The Trustee shall keep a complete and accurate record of all funds deposited by FSA into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal paid in respect of any FSA Insured Bond. FSA shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(d) Upon payment of a claim under the FSA Policy the Trustee shall establish a separate special purpose trust account for the benefit of Owners of FSA Insured Bonds referred to herein as the “FSA Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the FSA Policy in trust on behalf of Owners of FSA Insured Bonds and shall deposit any such amount in the FSA Policy Payments Account

and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee or the Trustee shall cause such amounts to be disbursed, to Owners of FSA Insured Bonds in the same manner as principal and interest payments are to be made with respect to the FSA Insured Bonds under the sections hereof regarding payment of FSA Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

(e) Funds held in the FSA Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee or Co-Trustee. Any funds remaining in the FSA Policy Payments Account following a Payment Date shall promptly be remitted to FSA.

(f) The obligations to FSA under this paragraph 9 shall survive discharge or termination of the Indenture.

10. FSA shall be entitled to pay principal or interest on the FSA Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Department (as such terms are defined in the FSA Policy), whether or not FSA has received a Notice of Nonpayment (as such terms are defined in the FSA Policy) or a claim upon the FSA Policy.

11. The Department and the Trustee shall give notice to FSA of (i) the occurrence of any Event of Default under the Indenture and any event of default under the Master Credit and Liquidity Agreement within five Business Days of their actual knowledge thereof, (ii) the commencement of any proceeding by or against the Department under the United States Bankruptcy Code or any other insolvency laws, (iii) the making of any claim in connection with any insolvency proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the FSA Insured Bonds and (iv) the resignation or removal of any of the Co-Trustee, the Paying Agent for FSA Insured Bonds or the Bond Registrar for FSA Insured Bonds, and the appointment of, and acceptance of such duties by, any successor thereto.

12. Any surety, insurance policy or similar surety instrument used in lieu of cash or investments in the Debt Service Reserve Account shall be from a provider rated in the second highest long term rating category or better (without regard to ratings modifiers) by a Rating Agency, and the Department shall replace any such surety, insurance policy or similar surety instrument if the provider's long term rating falls below such category.

13. The notice address of FSA is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director – Surveillance, Re: Policy No. _____, Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the

attention of the General Counsel and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”

APPENDIX B-3

SPECIAL PROVISIONS RELATING TO MBIA INSURANCE

Pursuant and subject to Section 3.01 of the Second Supplemental Indenture, the following provisions are hereby made applicable with respect to the MBIA Insured Bonds pursuant to the Policy issued by MBIA insuring the MBIA Insured Bonds (the “MBIA Policy”).

1. So long as the MBIA Policy is in full force and effect and payment on the MBIA Policy is not in default, then

(i) (a) MBIA shall be deemed to be the sole Owner of the MBIA Insured Bonds when the approval, consent or action of the Owners of such MBIA Insured Bonds is required or may be exercised under the Indenture, except for purpose of the second sentence of Section 902 of the Master Indenture with respect to modifications and amendments only with the consent of particular Owners of Bonds, and (b) with respect to such modifications and amendments, the consent of MBIA shall be required in addition to the consent of the Owners of applicable MBIA Insured Bonds, and

(ii) any amendment or modification of the Indenture, the Rate Agreement, the Servicing Arrangements or the Master Credit and Liquidity Agreement which would require the consent of the Owners of the Bonds under Section 902 of the Master Indenture shall also require the consent of (a) MBIA if such amendment or modification would have an adverse affect on the rights or interests of MBIA but not on the rights or interests of all Insurers or (b) a majority of the Outstanding Bonds insured by the Insurers, as exercised by the Insurers pursuant to clause (i) of this paragraph.

Pursuant to Section 3.01(c) of the Second Supplemental Indenture, the provisions of clause (i) of the immediately preceding sentence requiring the consent of particular Owners of MBIA Insured Bonds in addition to the consent of MBIA may not be waived by MBIA or amended by agreement between MBIA and the Department and, if applicable, the Trustee, the Co-Trustee or the Paying Agent. No provision of this Second Supplemental Indenture expressly recognizing or granting rights in or to MBIA may be amended without the prior written consent of MBIA.

2. In the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and/or interest due on any MBIA Insured Bonds shall be paid by MBIA under the provisions of the MBIA Policy, such MBIA Insured Bonds shall continue to be Outstanding under the Indenture for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Department; the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Department to the Owners of such MBIA Insured Bonds shall continue

to exist and the Indenture shall remain in full force and effect; and MBIA shall be subrogated to the rights of such Owners.

3. MBIA shall be a third party beneficiary of the Indenture.

4. In determining whether the Owners of MBIA Insured Bonds will be adversely affected by any action taken pursuant to the terms of the Indenture, the Department, the Trustee and the Co-Trustee, shall consider the effect on the Owners as if there were no MBIA Policy.

5. The rights granted to MBIA under the Indenture to request, consent to or direct any action are rights granted to MBIA in consideration of the issuance of the MBIA Policy. Any exercise by MBIA of such rights is merely an exercise of MBIA's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners, nor does such action evidence any position of MBIA, positive or negative, as to whether Owner consent is required in addition to consent of MBIA.

6. Payment under MBIA Policy. (a) In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the MBIA Insured Bonds, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the MBIA Insured Bonds due on the second following or following, as the case may be, Business Day, the Paying Agent shall immediately notify MBIA or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify MBIA or its designee.

(c) In addition, if the Paying Agent has notice that any Owner has been required to disgorge payments of principal or interest on the MBIA Insured Bonds to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify MBIA or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(d) The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the MBIA Insured Bonds as follows:

(1) If and to the extent there is a deficiency in amounts required to pay interest on the MBIA Insured Bonds, the Paying Agent shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the MBIA Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing MBIA as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to MBIA of the claims for interest to which such deficiency related and which are paid by MBIA, (b) receive a designee of the

respective Owners (and not as Paying Agent) in accordance with the tenor of the MBIA Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and

(2) If and to the extent of a deficiency in amounts required to pay principal of the MBIA Insured Bonds, the Paying Agent shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing MBIA as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to MBIA of any of the MBIA Insured Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Owners (and not as Paying Agent) in accordance with the tenor of the MBIA Policy payment therefore from the Insurance Paying Agent, and (c) disburse the same such Owners.

(e) Payments with respect to claims for interest on and principal of MBIA Insured Bonds disbursed by the Paying Agent from proceeds of the MBIA Policy shall not be considered to discharge the obligation of the Department with respect to such MBIA Insured Bonds, and MBIA shall become the owner of such unpaid MBIA Insured Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the Department and the Paying Agent hereby agree for the benefit of MBIA that:

(1) They recognize that to the extent MBIA makes payments, directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the MBIA Insured Bonds, MBIA will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the Department, with interest thereon as provided and solely from the sources stated in the Indenture and the MBIA Insured Bonds; and

(2) They will accordingly pay to MBIA the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the MBIA Policy, which principal and interest shall be deemed past due and not have been paid), with interest thereon as provided in the Indenture and the MBIA Insured Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the MBIA Insured Bonds to Owners, and will otherwise treat MBIA as the owner of such rights to the amount of such principal and interest.

7. Only cash and the following securities shall be authorized to be used to effect defeasance of the MBIA Insured Bonds pursuant to Section 1101 of the Master Indenture:

(i) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – “SLGs”);

(ii) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

(iii) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

(iv) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(v) the following obligations backed by the full faith and credit of the United States and issued by one of the following agencies:

(a) certificate of beneficial ownership of the Farmers Home Administration (FmHA);

(b) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank (Eximbank);

(c) participation certificates issued by the General Services Administration;

(d) guaranteed Title XI financing of the U.S. Maritime Administration;

(e) Federal Financing Bank; and

(f) Project Notes, Local Authority Bonds, New Communities Debentures - U.S. government guaranteed debentures and U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds of the U.S. Department of Housing and Urban Development (HUD).

8. To accomplish legal defeasance of MBIA Insured Bonds, the Department shall cause to be delivered to MBIA:

(a) Fifteen Business Days notice of its intent to advance refund any MBIA Insured Bonds.

(b) The final debt service schedule on the new issue within three Business Days from the sale date.

(c) At least five Business Days in advance of closing draft copies of:

(1) a verification by an independent CPA firm (a “Verification”) of the sufficiency of the escrow to timely retire the refunded MBIA Insured Bonds;

(2) the escrow securities purchase contracts of SLG subscription forms or open market confirmations; and

(3) the escrow agreement (which shall be acceptable in form and substance to MBIA).

Final and signed copies of all the above documents to be sent via overnight mail from closing.

An independent CPA firm is defined as a licensed certified public accounting firm acting at arms length from the transaction on behalf of the Owners. It may not be the underwriter, bond counsel or financial advisor for the refunding issue. The firm must carry errors and omissions insurance. MBIA reserves the right to review the provider of the Verification on a deal by deal basis.

(d) At least five Business Days prior to closing of a draft opinion from Nationally Recognized Bond Counsel (or Special Tax Counsel) reasonably acceptable to MBIA to the effect that the refunding bonds are being issued in compliance with state law and that the interest on the refunding bonds is tax-exempt (a final, executed copy is to be sent by overnight mail).

(e) At least five Business Days prior to closing of a draft opinion from Nationally Recognized Bond Counsel reasonably acceptable to MBIA stating that the refunded MBIA Insured Bonds have been legally defeased (a final, executed copy is to be sent by overnight mail). This condition is only applicable in those situations where the refunding issue is legally defeasing the refunded issue.

(f) If the escrow agreement allows for the substitution of securities in the escrow account, then it should be provided in the escrow agreement that no such substitution may occur unless there has first been delivered to the escrow agent/trustee, (1) a Verification that the escrow investments as substituted, are sufficient to pay debt service, as it becomes due, on the refunded bonds and (2) an opinion of Nationally Recognized Bond Counsel to the effect that the substitution is permitted under the escrow agreement and the substitution has no adverse effect on the tax-exempt nature of the refunding bonds.

9. If a forward supply contract is executed in conjunction with a refunding of MBIA Insured Bonds, the following conditions must also be met:

(a) MBIA must review and approve the forward supply contract at least five Business Days prior to closing (or after closing, at least five Business Days prior to execution if not contemplated at the time of closing).

(b) The forward supply contract must provide by its terms that the securities delivered under the forward supply contract are sufficient (when taken with other funds remaining in the escrow) as to amount and timeliness to retire the refunded bonds.

(c) MBIA must receive an opinion from a nationally recognized bankruptcy counsel that the securities in escrow and payments to Owners of refunded MBIA Insured Bonds will not constitute assets of the supplier of the securities delivered under the forward supply contract and will not be subject to automatic stay in the event of bankruptcy and/or insolvency of the supplier of the securities delivered under the forward supply contract.

(d) The supplier of the securities delivered under the forward supply contract must affirm in the contract that it has no rights to or interest in the monies or securities held in the escrow.

(e) The escrow agent must be reasonably acceptable to MBIA. MBIA reserves the right to request that the Department remove the escrow agent for cause.

(f) Only investments set forth in paragraph 7 above which are non-callable are permitted under the forward supply contract.

(g) The supplier should have no right to substitute the original escrow securities. The supplier may substitute securities previously delivered by the supplier under the forward supply contract only if:

(1) The substituted securities mature on a date that is later than the previously delivered securities would have matured; and

(2) The substituted securities mature prior to the date needed to pay principal and/or interest on the MBIA Insured Bonds.

(h) Two days before each delivery date for the forward supply securities, the escrow agent shall notify MBIA in writing of the securities to be delivered, the maturity amount of the securities and the maturity date.

(i) The forward supply contract cannot be amended or modified without the MBIA's written consent.

10. The Trustee or the Co-Trustee shall furnish to MBIA, as soon as practicable, notice of (i) the failure of the Department to give or make any of the certificates, notices, reports or filings it is required to give or make pursuant to the Indenture, (ii) the insufficiency of amounts on deposit with the Trustee and available to

make any payments of principal or interest on the MBIA Insured Bonds when due, and (iii) the occurrence of any Event of Default actually known to it.

11. The Department will forward, or cause to be forwarded, to Standard & Poor's Rating Group a copy of each amendment of or supplement to the Master Indenture, any Supplemental Indenture or any Rate Agreement.

12. The notice address of MBIA is: MBIA Corporation, 113 King Street, Armonk, New York 10504, Attention: Surveillance, Telephone: (914) 273-4545; Telecopier: (914) 765-3555, Attention: IPM-Utilities.

APPENDIX B-4

SPECIAL PROVISIONS RELATING TO XL CAPITAL INSURANCE

Pursuant and subject to Section 3.01 of the Second Supplemental Indenture, the following provisions are hereby made applicable with respect to the XL Capital Insured Bonds pursuant to the Policy issued by XL Capital insuring the XL Capital Insured Bonds (the “XL Capital Policy”).

1. So long as the XL Capital Policy is in full force and effect and payment on the XL Capital Policy is not in default, then

(i) (a) XL Capital shall be deemed to be the sole Owner of the XL Capital Insured Bonds when the approval, consent or action of the Owners of such XL Capital Insured Bonds is required or may be exercised under the Indenture, except for purposes of the second sentence of Section 902 of the Master Indenture with respect to modifications and amendments only with the consent of particular Owners of Bonds and (b) with respect to such modifications and amendments, the consent of XL Capital shall be required in addition to the consent of the Owners of applicable XL Capital Insured Bonds,

(ii) any amendment or modification of the Indenture, the Rate Agreement, the Servicing Arrangements or the Master Credit and Liquidity Agreement which would require the consent of the Owners of the Bonds under Section 902 of the Master Indenture shall also require the consent of (a) XL Capital if such amendment or modification would have an adverse affect on the rights or interests of FSA but not on the rights or interests of all Insurers or (b) a majority of the Outstanding Bonds insured by the Insurers, as exercised by the Insurers pursuant to clause (i) of this paragraph, and

(iii) to the extent that the Department issues Bonds on or after January 1, 2003 pursuant to a Supplemental Indenture other than (a) to achieve debt service savings through a refunding or (b) pursuant to an additional bonds test, XL Capital must consent to the issuance of such Bonds and the Supplemental Indenture pursuant to which such Bonds are issued, which consent will not be unreasonably withheld.

Pursuant to Section 3.01(c) of the Second Supplemental Indenture, the provisions of clause (i) of the immediately preceding sentence requiring the consent of particular Owners of XL Capital Insured Bonds in addition to the consent of XL Capital may not be waived by XL Capital or amended by agreement between XL Capital and the Department and, if applicable, the Trustee, the Co-Trustee or the Paying Agent. No provision of this Second Supplemental Indenture expressly recognizing or granting rights in or to XL Capital may be amended without the prior written consent of XL Capital. The Department shall deliver a copy of each amendment of the Indenture to XL Capital

on or prior to the effective date of such amendment. A copy of any such amendment shall be sent to Standard & Poor's Rating Services.

2. In the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and interest due on any XL Capital Insured Bonds shall be paid under the provisions of the XL Capital Policy, such XL Capital Insured Bonds shall continue to be Outstanding under the Indenture; all covenants, agreements and other obligations of the Department to the Owners of such XL Capital Insured Bonds shall continue to exist; and XL Capital shall be subrogated to the rights of such Owners.

3. XL Capital shall be a third party beneficiary of the Indenture.

4. In determining whether the Owners of XL Capital Insured Bonds will be adversely affected by any action taken pursuant to the terms of the Indenture, Department, the Trustee and the Co-Trustee shall consider the effect on the Owners as if there were no XL Capital Policy.

5. The rights granted to XL Capital under the Indenture to request, consent to or direct any action are rights granted to XL Capital in consideration of the issuance of the XL Capital Policy. Any exercise by XL Capital of such rights is merely an exercise of XL Capital's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners nor does such action evidence any position of XL Capital, positive or negative, as to whether Owner consent is required in addition to consent of XL Capital.

6. Only cash and the following securities shall be authorized to be used to effect defeasance of the XL Capital Insured Bonds pursuant to Section 1101 of the Master Indenture:

(i) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGs");

(ii) direct obligations of the Treasury which have been stripped by the Treasury itself;

(iii) an interest component of Resolution Funding Corp. ("REFCORP") strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(iv) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's. If, however, the issue is only rated by Standard & Poor's (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals; and

(v) the following obligations backed by the full faith and credit of the United States and issued by one of the following agencies:

- (a) direct obligations or fully guaranteed certificates of beneficial ownership issued by the U.S. Export-Import Bank (Eximbank);
- (b) obligations of the Farmers Home Administration (FmHA);
- (c) obligations of the Federal Financing Bank;
- (d) participation certificates issued by the General Services Administration;
- (e) guaranteed Title XI financing of the U.S. Maritime Administration; and
- (f) Project Notes, Local Department Bonds, New Communities Debentures and U.S. Public Housing Notes and Bonds issued by the U.S. Department of Housing and Urban Development (HUD)

7. To accomplish legal defeasance of XL Capital Insured Bonds, the Department shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to XL Capital (“Accountant”) verifying the sufficiency of the escrow established to pay the XL Capital Insured Bonds in full on the maturity or redemption date (“Verification”), (ii) an escrow agreement (which shall be acceptable in form and substance to XL Capital), (iii) an opinion of nationally recognized bond counsel to the effect that the XL Capital Insured Bonds are no longer “Outstanding” under the Indenture and (iv) if there is a Trustee for the XL Capital Insured Bonds, a certification of discharge of the Trustee with respect to the XL Capital Insured Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Department, the Trustee, the Co-Trustee and XL Capital. XL Capital shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow, or such shorter period as shall be acceptable to XL Capital. XL Capital Insured Bonds shall be deemed “Outstanding” under the Indenture unless and until they are in fact paid and retired or the above criteria are met and any additional requirements of Section 1101 of the Master Indenture have been satisfied.

8. Claims Upon the XL Capital Policy and Payments by and to XL Capital. (a) If, on the third Business Day prior to the Interest Payment Date or scheduled principal payment date (“Payment Date”), there is not on deposit with the Trustee or the Paying Agent for the XL Capital Insured Bonds, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the XL Capital Insured Bonds due on such Payment Date, the Trustee shall give notice to XL Capital and to its designated agent (if any) (“XL Capital’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by 2:00 p.m., New York City time, on such Business Day. If, on the Business Day immediately preceding the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and

interest on the XL Capital Insured Bonds due on such Payment Date, the Trustee shall make a claim under the XL Capital Policy and give notice to XL Capital and XL Capital's Fiscal Agent (if any) by telephone of the amount of any deficiency in the amount available to pay principal and interest, and the allocation of such deficiency between the amount required to pay interest on the XL Capital Insured Bonds and the amount required to pay principal of the XL Capital Insured Bonds, confirmed in writing to XL Capital and XL Capital's Fiscal Agent by 2:00 p.m., New York City time, on such Business Day, by delivering the Notice of Nonpayment and Certificate.

"Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to XL Capital, which notice shall specify (a) the name of the entity making the claim, (b) the XL Capital Policy number, (c) the claimed amount and (d) the date such claimed amount will become Due for Payment.

"Nonpayment" means the failure of the Department to have provided sufficient funds to the Trustee for payment in full of all principal of and interest on the XL Capital Insured Bonds which are Due for Payment.

"Due for Payment," when referring to the principal of XL Capital Insured Bonds, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of Sinking Fund Installments), acceleration or other advancement of maturity, unless XL Capital shall elect, in its sole discretion, to pay such principal due upon such acceleration; and when referring to interest on XL Capital Insured Bonds, means when the Interest Payment Date has been reached.

"Certificate" means a certificate in form and substance satisfactory to XL Capital as to the Trustee's right to receive payment under the XL Capital Insurance Policy.

(b) The Trustee shall designate any portion of payment of principal on XL Capital Insured Bonds paid by XL Capital, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of XL Capital Insured Bonds registered to the then current Owner, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to XL Capital, registered in the name of XL Capital Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to Authorized Denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Department on any XL Capital Insured Bond or the subrogation rights of XL Capital.

(c) The Trustee shall keep a complete and accurate record of all funds deposited by XL Capital into the XL Capital Policy Payments Account (defined below)

and the allocation of such funds to payment of interest on and principal paid in respect of any XL Capital Insured Bond. XL Capital shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(d) Upon payment of a claim under the XL Capital Policy, the Trustee shall establish a separate purpose trust account for the benefit of Owners of XL Capital Insured Bonds referred to herein as the “XL Capital Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the XL Capital Policy in trust on behalf of Owners of XL Capital Insured Bonds and shall deposit any such amount in the XL Capital Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee, or the Trustee shall cause the Paying Agent for the XL Capital Insured Bonds to disburse, to Owners of XL Capital Insured Bonds in the same manner as principal and interest payments are to be made with respect to the XL Capital Insured Bonds under the sections hereof regarding payment of XL Capital Insured Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

(e) Funds held in the XL Capital Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the XL Capital Policy Payments Account following an Interest Payment Date or scheduled principal payment date shall promptly be remitted to XL Capital.

(f) The obligations to XL Capital under this paragraph 8 shall survive discharge or termination of the Indenture.

9. The Trustee or the Co-Trustee shall furnish to XL Capital, as soon as practicable, notice of (i) the failure of the Department to give or make any of the certificates, notices, reports or filings it is required to give or make pursuant to the Indenture, and (ii) the insufficiency of amounts on deposit with the Trustee and available to make any payments of principal or interest on the XL Capital Insured Bonds when due.

10. The Trustee shall invest amounts on deposit in any fund, account or subaccount under the Indenture in Authorized Investments described in clause (iii) or (iv) of such definition only if such Authorized Investments are rated “A” or better (without regard to ratings modifiers) by at least two Rating Agencies.

11. Any surety, insurance policy or similar surety instrument used in lieu of cash or investments in the Debt Service Reserve Account shall be from a provider rated in the second highest long term rating category or better (without regard to ratings modifiers) by a Rating Agency, and the Department shall replace any such surety, insurance policy or similar surety instrument if the provider’s long term rating falls below such category.

12. The Department and the Trustee shall give notice to XL Capital of (i) the occurrence of any Event of Default under the Indenture and any event of default under the Master Credit and Liquidity Agreement within five Business Days of their actual knowledge thereof, (ii) the commencement of any proceeding by or against the Department under the United States Bankruptcy Code or any other insolvency laws, (iii) the making of any claim in connection with any insolvency proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the XL Capital Insured Bonds and (iv) the resignation or removal of any of the Co-Trustee, the Paying Agent for XL Capital Insured Bonds or the Bond Registrar for XL Capital Insured Bonds, and the appointment of and acceptance of such duties by, any successor thereto.

Any notices required to be given by any party pursuant to the Indenture shall also be given to XL Capital. The notice address of XL Capital is: XL Capital Assurance Inc., 250 Park Avenue, New York, New York 10177, Attention: Surveillance, Telephone: (646) 658-5900, Telecopier: (646) 658-5955 or such other address as may be designated by XL Capital.